

Report
of the
Examination of
Touchpoint Insurance Company, Inc.
Appleton, Wisconsin
As of December 31, 2000

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott McCallum, Governor
Connie L. O'Connell, Commissioner

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December 21, 2001

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, WI 53702

Commissioner:

In accordance with your instructions, a compliance examination has been made of the
affairs and financial condition of:

TOUCHPOINT INSURANCE COMPANY, INC.
Appleton, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

Touchpoint Insurance Company, Inc. (TIC or the company) was organized
December 9, 1998. The current examination covered the intervening period ending
December 31, 2000, and included a review of such 2001 transactions as deemed necessary to
complete the examination.

The examination consisted of a review of all major phases of the company's
operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance

Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

Touchpoint Insurance Company, Inc. (TIC), formerly known as United Health Select of Wisconsin Insurance Company, Inc. was incorporated on December 9, 1998 and commenced business on January 1, 1999. TIC is a wholly-owned subsidiary of Touchpoint Health Plan, Inc. The company conducts business as a for-profit stock indemnity insurance corporation under Chapter 611 of the Wisconsin Statutes. The company is licensed in Wisconsin and operates as an insurance carrier for the point of service line of business. Direct premiums written in 2000 amounted to \$3,719,000. The major products are marketed through 195 agents.

The following table is a summary of the net insurance premiums written by the company in 2000. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Accident and health	<u>\$3,719,477</u>	<u>\$244,598</u>	<u>\$0</u>	<u>\$3,944,075</u>

The company provides out-of-network coverage for point-of-service policies issued jointly with Touchpoint Health Plan, Inc. (THP). THP is liable for 1) services provided by providers participating in THP's network, 2) services from non-participating providers with a referral from a participating provider, and 3) emergency services. TIC is liable for non-emergency services to non-participating providers without referral. Coverage for in-plan service is similar to comprehensive HMO benefits provided by THP. Out-of-plan benefits allow the enrollee to "self-refer" to out-of-plan (nonparticipating) providers. Out-of-plan benefits have deductibles of \$200 to \$1,000 per individual and \$400 to \$2,000 per family; and coinsurance requirements of 10% or 20% for in-plan benefits and 20% and 40% for out-of-plan benefits. There is a calendar maximum of \$1 million and a \$2 million lifetime maximum on out-of-plan services. Coverage for routine physical examinations, well-baby care, immunizations, and routine eye and hearing exams is not provided as an out-of-plan benefit.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nineteen members. Directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation for serving on the board.

At the time of the examination, the board of directors consisted of the following persons:

Name and Residence	Principal Occupation	Term Expires
Dave Albrecht Green Bay, Wisconsin	Executive Vice President/CFO Bellin Hospital	2002
Scott Anderson, MD Green Bay, Wisconsin	Physician, Family Doctors of Howard	2002
Curtis Baltz, MD Neenah, Wisconsin	Physician, Internal Medicine Theda Clark Hospital	2002
Clark Boren, MD Appleton, Wisconsin	Physician, Fox Valley Surgical Associates	2003
Susan Buettner Milwaukee, Wisconsin	Director, Aurora Health Care	2001
Janine Buffo, MD Appleton, Wisconsin	Physician, ThedaCare Physicians	2001
Mark Chelsky, MD Appleton, Wisconsin	Physician, Valley Urologic Associates	2002
Michael Duffy, MD Oshkosh, Wisconsin	Physician, Oshkosh Internal Medicine	2001
William Guenther, MD Appleton, Wisconsin	Physician, Fox Valley Hematology & Oncology	2001
Rance Hafner, MD Green Bay, Wisconsin	Physician, Family Practice Associates	2002
Jonathan Hagen, MD Appleton, Wisconsin	Physician, Primary Care Associates	2003
Brad Hahn Sheboygan, Wisconsin	Vice President, Finance Aurora Health Care	2002
Thomas Koehler, MD Green Bay, Wisconsin	Physician, Deckner Clinic	2001

Board of Directors (cont.)

Name and Residence	Principal Occupation	Term Expires
Kathy Ledvina Milwaukee, Wisconsin	Director-Managed Care Aurora Health Care	2002
Douglas Mielke, MD Neenah, Wisconsin	Physician, Cardiology Associates	2001
Warren Parsons Appleton, Wisconsin	President, Oscar Boldt Construction	2003
Thomas Prosser Neenah	Senior Vice President Menasha Corporation	2002
Steve Van Dyke Green Bay, Wisconsin	President, Foth & Van Dyke	2001
Frank Wiesner Neenah, Wisconsin	Robert W. Baird & Co.	2002

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2000 Compensation
Jay Fulkerson	President	\$312,415*
Curtis Baltz, MD	Secretary	0**
Jeffrey Hacker	Chief Financial Officer	119,000*
Dean Gruner, MD	Chief Medical Officer	\$ 70,000***

*Employees of ThedaCare. Salary includes compensation for duties performed for Touchpoint and other affiliates.

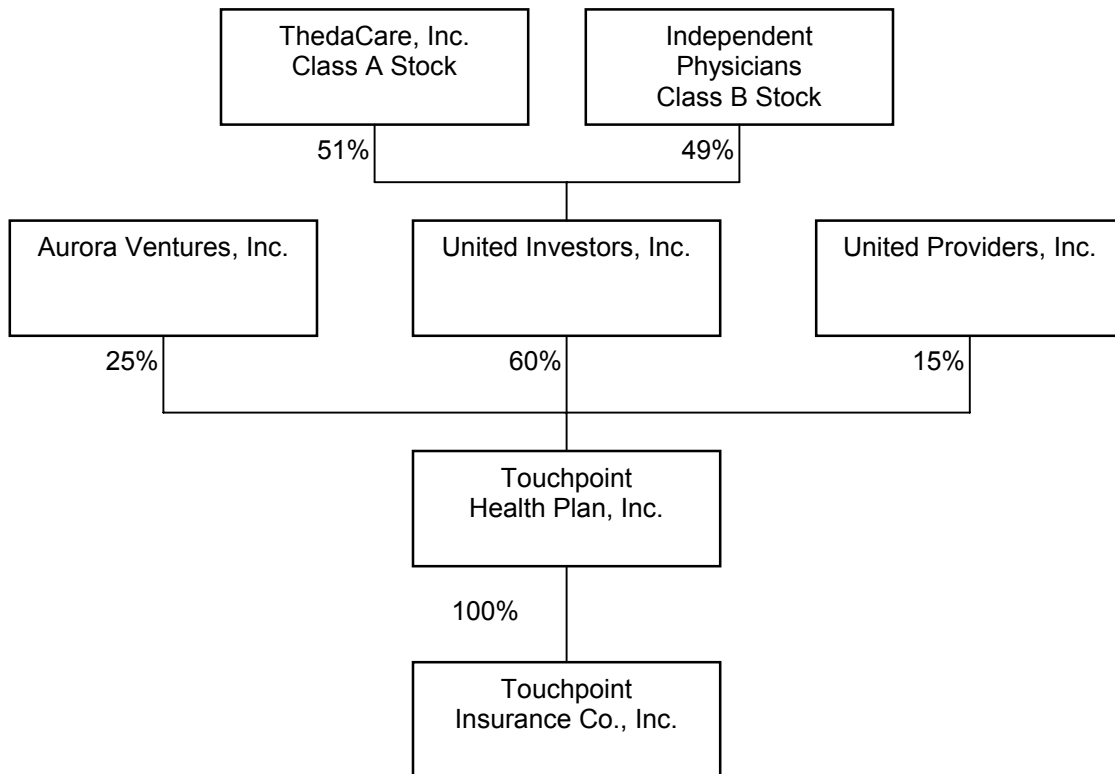
**No compensation received for being a board member.

***Represents a portion of salary allocated to Touchpoint.

IV. AFFILIATED COMPANIES

Touchpoint Insurance Company, Inc. is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of TIC follows the organizational chart.

Organizational Chart As of December 31, 2000



United Investors

United Investors, Inc. (UII) is a holding company and is 51% owned by ThedaCare, Inc. and 49% owned by other investors. UII writes group health insurance through its majority-owned subsidiary, Touchpoint Health Plan, Inc. As of December 31, 2000, the UII's audited consolidated financial statements reported assets of \$62,980,000, liabilities of \$44,939,000, shareholders equity of \$12,093,000 and minority interest of \$5,948,000. Operations for 2000 produced net income of \$698,000.

ThedaCare, Inc.

ThedaCare Inc. is a nonprofit organization incorporated in 1985 and is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. ThedaCare is a health provider system owning three hospitals, a number of primary care clinics, a nursing home, and other ancillary health care providers. The provider is a 51% owner of United Investors, Inc. As of December 31, 2000, ThedaCare's audited consolidated financial statements reported assets of \$354,562,000, liabilities of \$132,259,000 and net assets of \$222,203,000. Operations for 2000 produced net income of \$31,841,000.

Touchpoint Health Plan, Inc.

Touchpoint Health Plan, Inc. (THP) is a stock insurance corporation organized under Chapter 611 of Wisconsin Statutes. THP was incorporated on February 12, 1988 and commenced business on April 1, 1988. TIC is a wholly-owned subsidiary of THP. As of December 31, 2000, THP's audited financial statements reported assets of \$54,763,755, liabilities of \$40,571,829, and net worth of \$14,191,926. Operations for 2000 produced net income of \$1,675,136.

V. REINSURANCE

TIC has one reinsurance agreement with its parent, Touchpoint Health Plan, Inc. and the coverage is described below:

Affiliated Assuming Contract

The HMO has reinsurance coverage under an affiliated ceding contract outlined below:

Reinsured:	Touchpoint Health Plan, Inc.
Type:	Assumption reinsurance for indemnity coverage for point of service products
Effective date:	January 1, 1999
Coverage:	90% of THP's gross earned premium on point of service business
Premium:	14% of gross earned premium for large groups 3% of gross earned premium for small groups
Termination:	Will remain in effect until terminated.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2000, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Touchpoint Insurance Company, Inc.
Assets
As of December 31, 2000

	Ledger Assets	Nonledger Assets	Nonadmitted Assets	Admitted Assets
Bonds	\$1,584,209			\$1,584,209
Stocks:				
Common stocks	911,416	(111,327)		800,089
Cash	1,456,868			1,456,868
Investment income due and accrued	16,986			16,986
Receivable from parent, subsidiaries and affiliates	310,285		310,285	
Estimated tax payments	<u>14,975</u>	<u> </u>	<u> </u>	<u>14,975</u>
Total Assets	<u>\$4,294,739</u>	<u>\$(111,327)</u>	<u>\$310,285</u>	<u>\$3,873,127</u>

Touchpoint Insurance Company, Inc.
Liabilities, Surplus, and Other Funds
As of December 31, 2000

Policy and contract claims:	
Accident and health	\$1,276,375
Miscellaneous liabilities:	
Asset valuation reserve	<u>240,026</u>
Total Liabilities	1,516,401
Common capital stock	2,000,000
Preferred capital stock	
Write-ins for other than special surplus funds:	
Surplus notes	
Gross paid in and contributed surplus	1,000,000
Unassigned funds (surplus)	<u>(643,274)</u>
Surplus	<u>2,356,726</u>
Total Liabilities, Surplus, and Other Funds	<u>\$3,873,127</u>

Touchpoint Insurance Company
Summary of Operations
For the Year 2000

Premiums and annuity considerations	\$3,944,075
Net investment income	<u>67,569</u>
Total income items	<u>4,011,644</u>
Disability benefits and benefits under accident and health policies	3,372,792
Commissions on premiums, annuity considerations, and deposit type funds	98,873
General insurance expenses	658,302
Insurance taxes, licenses, and fees excluding federal income taxes	13,088
Write-in for deductions:	
Risk sharing expense	<u>(177,259)</u>
Total deductions	<u>3,965,796</u>
Net gain from operations before federal income taxes	45,848
Federal income taxes incurred (excluding tax on capital gains)	<u>22,699</u>
Net gain from operations after federal income taxes and before realized capital gains or (losses)	23,149
Net realized capital gains or (losses) less capital gains tax	<u>(118,450)</u>
Net loss	<u>\$ (95,301)</u>

Touchpoint Insurance Company
Cash Flow
As of December 31, 2000

Premiums and annuity considerations	\$3,944,075	
Net investment income	<u>86,008</u>	
Total		<u>\$4,030,083</u>
Disability benefits and benefits under accident and health policies	<u>4,132,217</u>	
Subtotal		4,132,217
Commissions on premiums, annuity considerations, and deposit type funds	98,873	
General insurance expenses	658,302	
Insurance taxes, licenses and fees, excluding federal income taxes	25,839	
Write-ins for deductions:		
Risk sharing benefits under A&H policies	85,576	
Federal income taxes (excluding tax on capital gains)	<u>16,137</u>	
Total deductions		<u>5,016,944</u>
Net cash from operations		\$ (986,861)
Proceeds from investments sold, matured, or repaid:		
Stocks	<u>3,249,368</u>	
Total investment proceeds		3,249,368
Cost of investments acquired (long-term only):		
Bonds	517,606	
Stocks	<u>1,588,117</u>	
Total investments acquired		<u>2,105,723</u>
Net cash from investments		1,143,645
Cash provided from financing and miscellaneous sources:		
Other cash provided	<u>2,758</u>	
Total		2,758
Cash applied for financing and miscellaneous uses:		
Dividends to stockholders paid		
Interest on indebtedness		
Other applications	<u>637,170</u>	
Total		<u>637,170</u>
Net cash from financing and miscellaneous sources		<u>(634,412)</u>
Net change in cash and short-term investments		(477,628)
Reconciliation		
Cash and short-term investments, December 31, 1999		<u>1,934,496</u>
Cash and short-term investments, December 31, 2000		<u>\$1,456,868</u>

Touchpoint Insurance Company, Inc.
Compulsory and Security Surplus Calculation
December 31, 2000

Assets		\$3,873,127	
Less liabilities		<u>1,516,401</u>	
Adjusted surplus			\$2,356,726
Group health	3,944,075		
Factor	<u>10%</u>		
Total		<u>\$ 394,408</u>	
Compulsory surplus (subject to a \$2,000,000 minimum)			<u>2,000,000</u>
Compulsory surplus excess or (deficit)			<u>\$ 356,726</u>
Adjusted surplus			\$2,356,726
Security surplus:			
(140% of compulsory surplus, factor reduced 1% for			
each \$33 million in premium written in excess of			
\$10 million with a minimum of 110%)			<u>2,800,000</u>
Security surplus excess or (deficit)			<u>\$ (443,274)</u>

Touchpoint Insurance Company, Inc.
Reconciliation and Analysis of Surplus
For the Three-Year Period Ending December 31, 2000

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1999	2000
Surplus, beginning of year	\$3,004,094	\$3,051,775
Net income	109,570	(95,301)
Change in net unrealized capital gains or (losses)	602,995	(714,321)
Change in nonadmitted assets and related items	(\$7,500)	(302,785)
Change in asset valuation reserve	(657,384)	417,358
Surplus, end of year	<u>\$3,051,775</u>	<u>\$2,356,726</u>

Touchpoint Insurance Company
Insurance Regulatory Information System
For the Three-Year Period Ending December 31, 2000

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios may be found after the IRIS ratios.

	Ratio	1999	2000
#1	Net change in capital & surplus	NR%	(23.0)%*
#1A	Gross change capital & surplus	NR	(23.0)*
#2	Net income to total income	2	(2.0)*
#4	Adequacy of investment income	*	*
#5	Non-admitted to admitted assets	0.0	8.0
#6	Total real estate & mortgage loans to cash & invested assets	0.0	0.0
#7	Total affl investments to capital & surplus	0.0	0.0
#8	Surplus relief	0.0	0.0
#9	Change in premium	*	(31.0)*
#10	Change in product mix	0.0	0.0
#11	Change in asset mix	0.0	4.6
#12	Change in reserving ratio	0.0	0.0

The exceptions for ratios 1, 2, and 3 reflected the impact of a net loss and a net realized capital loss in 2000.

Ratio No. 4 compares the net investment income to the increase in reserves for tabular interest. The exceptional results for Ratio No. 4 were due to the company being primarily a group

health insurer. Because the company's business is not written on a level-premium basis like individual life insurance, there are no tabular reserves.

Growth of Touchpoint Insurance Company

Year	Admitted Assets	Liabilities	Surplus
1999	6,406,910	3,355,135	3,051,775
2000	3,873,127	1,516,401	2,356,726

Accident and Health

Year	Net Premiums Earned	Net Losses Incurred	Commissions Incurred	Other Expenses Incurred	Combined Loss and Expense Ratio
1999	5,741,244	4,066,018	73,591	517,615	81.1%
2000	3,944,075	3,372,792	98,873	770,263	107.6

Reconciliation of Surplus per Examination

No reclassifications or adjustments to surplus were made as a result of this examination.

VII. SUMMARY OF EXAMINATION RESULTS

Summary of Current Examination Results

Bonds

A review of the custodial agreement revealed that a clause relating to prompt replacement of lost securities was not included in the indemnification language. According to the NAIC Examiners' Handbook, custodial agreements need provisions similar to the following: "in the event of a loss of securities for which the bank or trust company is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced." It is recommended that the company add an indemnification clause regarding prompt replacement of securities to its custodial agreement in accordance with the NAIC Examiners' Handbook.

The custodial agreement was in the name of United Health Select of Wisconsin Insurance Company. The company's name was changed to Touchpoint Insurance Company in 1999. The company should update its custodial agreement to reflect the proper name of the insurer when it is amended per the above recommendation.

Underwriting

As discussed in previous sections of this report, the company issues a point-of-service product jointly with its affiliate. Section 631.41, Wis.Stat. allows two or more insurers to together issue a policy. If the contract has several liability, the heading of the policy must conspicuously so state and the policy must conspicuously state the proportion or amount of premium to be paid to each insurer and the type and the proportion or amount of liability each insurer agrees to assume. The group master policies lacked information about the exact percentage of premium for each insurer. The policy states that Touchpoint Insurance Company receives 10%-14% of the premium. It is recommended that the company state the proportion or amount of premium to be paid to each insurer on its joint policies in accordance with s. 631.41, Wis. Adm. Stats.

Financial Reporting

The executive compensation reports submitted to the Commissioner's Office as a supplemental filing with the annual statement were incomplete. It is recommended that the company submit executive compensation reports with its annual statements in accordance with s. 611.53 (4), Wis. Stats.

A review of the 2000 annual statement revealed that a page of notes was missing in the Notes to the Financial Statements. It is recommended that the company complete the Notes to the Financial Statements in accordance with NAIC Annual Statement Instructions.

The company included an adjustment for modified coinsurance amount in its compulsory and security surplus calculation. The company does not have modified coinsurance and therefore an adjustment should not have been included in the form. It is recommended that the company not include a modified coinsurance adjustment in its calculation of compulsory and security surplus unless it enters into modified coinsurance reinsurance.

VIII. CONCLUSION

Touchpoint Insurance Company, Inc. (TIC), formerly known as United Health Select of Wisconsin Insurance Company, Inc. was incorporated on December 9, 1998 and commenced business on January 1, 1999. TIC is a wholly-owned subsidiary of Touchpoint Health Plan, Inc. The company conducts business as a for-profit stock corporation under Chapter 611 of the Wisconsin Statutes. The company is licensed in Wisconsin and operates as an insurance carrier for the point of service line of business.

The current examination made five recommendations, three relating to financial reporting, one related to the company's policy forms, and one related to the custodial agreement. There were no adjustments made to the company's reported capital and surplus.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 19 - Bonds—It is recommended that the company add an indemnification clause regarding prompt replacement of securities to its custodial agreement in accordance with the NAIC Examiners' Handbook.
2. Page 19 - Underwriting—It is recommended that the company state the proportion or amount of premium to be paid to each insurer on its joint policies in accordance with s. 631.41, Wis. Adm. Stats.
3. Page 20 - Financial Reporting—It is recommended that the company submit executive compensation reports with its annual statements in accordance with s. 611.53 (4), Wis. Stats.
4. Page 20 - Financial Reporting—It is recommended that the company complete the Notes to the Financial Statements in accordance with NAIC Annual Statement Instructions.
5. Page 20 - Financial Reporting—It is recommended that the company not include a modified coinsurance adjustment in its calculation of compulsory and security surplus unless it enters into modified coinsurance reinsurance.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Sonja Dedrick	Insurance Financial Examiner
Rebecca Easland	Insurance Financial Examiner

Respectfully submitted,

Theresa McClintock
Examiner-in-Charge